

**REPORT OF THE AUDIT OF THE  
MONROE COUNTY  
CLERK**

**For The Year Ended  
December 31, 2006**



**CRIT LUALLEN  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**MONROE COUNTY CLERK**

**For The Year Ended**  
**December 31, 2006**

The Auditor of Public Accounts has completed the Monroe County Clerk's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

**Financial Condition:**

Excess fees decreased by \$13,509 from the prior year, resulting in excess fees of \$10,340 as of December 31, 2006. Revenues increased by \$68,865 from the prior year and expenditures increased by \$82,374.

**Report Comments:**

- The County Clerk Should Document Compensating Controls That She Has Been Performing
- The County Clerk Should Not Exceed Approved Budget Amounts

**Deposits:**

The County Clerk's deposits as of April 11, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured    \$18,855

The County Clerk's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the County Clerk's deposits in accordance with the security agreement.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wilber Graves, Monroe County Judge/Executive  
The Honorable Teresa Sheffield, Monroe County Clerk  
Members of the Monroe County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Monroe County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 21, 2007 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Wilber Graves, Monroe County Judge/Executive  
The Honorable Teresa Sheffield, Monroe County Clerk  
Members of the Monroe County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk Should Document Compensating Controls That She Has Been Performing
- The County Clerk Should Not Exceed Approved Budget Amounts

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Monroe County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

September 21, 2007



MONROE COUNTY  
 TERESA SHEFFIELD, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2006

Revenues

State Grants	\$	12,530
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State Fees For Services		4,644
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## Licenses and Taxes:

## Motor Vehicle-

Licenses and Transfers	\$	311,326
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Usage Tax		556,165
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Notary Fees		5,900
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Lien Release Fees		2,919
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Tangible Personal Property Tax		753,205
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## Other-

Fish and Game Licenses		3,842
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Marriage Licenses		2,967
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Occupational Licenses		169
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Deed Transfer Tax		22,692
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Affordable Housing Trust Fund		4,560
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Delinquent Tax	22,027	1,685,772
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## Fees Collected for Services:

## Recordings-

Deeds, Easements, and Contracts		7,781
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Real Estate Mortgages		12,290
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Chattel Mortgages and Financing Statements		30,843
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Fixture Filings		244
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Leases		181
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Liens and Lis Pendens		1,697
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Powers of Attorney		1,904
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Releases		4,458
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Wills and Estate Settlements		486
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All Other Recordings		2,025
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## Charges for Other Services-

Candidate Filing Fees		1,960
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Copywork		1,550
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Postage		192
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Refunds		3,816
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Miscellaneous	1,519	70,946
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Interest Earned		2,213
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Total Revenues		1,776,105
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The accompanying notes are an integral part of this financial statement.

MONROE COUNTY  
 TERESA SHEFFIELD, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2006  
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 243,498

Usage Tax 538,907

Tangible Personal Property Tax 257,427

Licenses, Taxes, and Fees-

Fish and Game Licenses 3,665

Delinquent Tax 2,635

Legal Process Tax 8,667

Affordable Housing Trust Fund 4,560 \$ 1,059,359

Payments to Fiscal Court:

Tangible Personal Property Tax 52,603

Delinquent Tax 2,280

Deed Transfer Tax 21,557

Miscellaneous 151 76,591

Payments to Other Districts:

Tangible Personal Property Tax 413,049

Delinquent Tax 11,485 424,534

Payments to Sheriff

308

Payments to County Attorney

3,121

Operating Expenditures:

Personnel Services-

Deputies' Salaries 100,058

Contracted Services-

Printing and Binding 12,530

Materials and Supplies-

Office Supplies 4,076

Other Charges-

Bank Charges 49

Conventions and Travel 600

Postage 4,001

Refunds 3,699

Miscellaneous 596 125,609

Total Expenditures

\$ 1,689,522

The accompanying notes are an integral part of this financial statement.

MONROE COUNTY  
 TERESA SHEFFIELD, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2006  
 (Continued)

Net Revenues		\$	86,583
Less: Statutory Maximum			<u>69,341</u>
Excess Fees			17,242
Less: Expense Allowance	\$	3,600	
Training Incentive Benefit		<u>3,302</u>	<u>6,902</u>
Excess Fees Due County for 2006			10,340
Payment to Fiscal Court - March 15, 2007			<u>10,340</u>
Balance Due Fiscal Court at Completion of Audit		\$	<u><u>0</u></u>

The accompanying notes are an integral part of this financial statement.

MONROE COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MONROE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2006  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.18 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006 all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of April 11, 2007, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the County Clerk's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$18,855

MONROE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2006  
(Continued)

Note 4. Grant

During 2005, the County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$12,530. No funds were expended during the prior year, but funds totaling \$12,530 were expended during the current year. The unexpended grant balance was \$0 as of December 31, 2006.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wilber Graves, Monroe County Judge/Executive  
The Honorable Teresa Sheffield, Monroe County Clerk  
Members of the Monroe County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Monroe County Clerk for the year ended December 31, 2006, and have issued our report thereon dated September 21, 2007. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Monroe County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Monroe County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Monroe County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The County Clerk Should Document Compensating Controls That She Has Been Performing
- The County Clerk Should Not Exceed Approved Budget Amounts



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the following significant deficiency to be a material weakness:

- The County Clerk Should Document Compensating Controls That She Has Been Performing

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Monroe County Clerk's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Monroe County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

September 21, 2007

## COMMENTS AND RECOMMENDATIONS



MONROE COUNTY  
TERESA SHEFFIELD, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY:

The County Clerk Should Not Exceed Approved Budget Amounts

During our review of the County Clerk's annual budget for 2006 it was noted that the County Clerk overspent her overall budget for receipts and disbursements. On January 19, 2006 the Monroe County Fiscal Court approved the County Clerk's 2006 budget in the amount of \$1,571,422. Actual receipts and disbursements totaled \$1,776,105, which is over the budget by \$204,683. It was also noted that no amendments were made to the original budget during the calendar year. We recommend that the County Clerk perform budget to actual comparisons on a monthly basis and request budget amendments when necessary for Fiscal Court approval.

*County Clerk's Response: The budget is not approved by line items. It is approved as a whole. There is not a way to budget the amount of receipts. Naturally if receipts are more than disbursements will be more.*

*Auditor's Reply: The County Clerk should request budget amendments prior to exceeding the original budget approved by the fiscal court.*

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The County Clerk Should Document Compensating Controls That She Has Been Performing

The County Clerk or Bookkeeper collects money, prepares the deposit, and agrees to the daily check out sheet. The authorized check signers are not independent of the purchasing and receiving functions. No compensating controls were noted for the review of expenditures by another individual to ensure accuracy and completeness. Also, the bank reconciliations were prepared by employees who participate in the receipt and disbursement of cash. These duties are not segregated and pose an internal control weakness known as an inadequate segregation of duties. The county clerk maintains that she performs procedures to act as compensating controls to mitigate the internal control weakness; however, these compensating controls were not documented. We recommend the County Clerk document the compensating controls that she has been performing in order to offset the internal control weakness.

*County Clerk's Response: In an all out effort to adhere to the environmental, management, internal and compensating controls, I do not find anything in the Auditor's training handouts that says "initial" any documents that I have attended and I have attended all of them. There is no way to begin implementing a compensating control procedure before we are told to do it. How easy it would be to initial documents if we only knew to do so. You should have recommended the compensating control of initialing or documenting first and then audited us accordingly.*

*Auditor's Reply: In the future, the County Clerk should document all compensating controls that she performs.*

